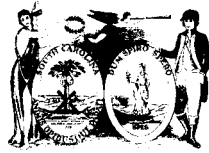


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
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June 21, 2004

Ms. Linda A. Holtzscheiter, Reimbursement Manager
Mariner Health Care
5300 West Sam Houston Parkway North
Houston, Texas 77041

Re: AC# 3-FAI-J1 – GranCare South Carolina, Inc. d/b/a Faith Healthcare Center

Dear Ms. Holtzscheiter:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2000 through September 30, 2001. That report was used to set the rate covering the contract period beginning January 1, 2003.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

A handwritten signature in black ink, appearing to read 'James McDaniel Jr.', is written over the typed name of Thomas L. Wagner, Jr.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph Hayes

**GRANCARE SOUTH CAROLINA, INC.
D/B/A FAITH HEALTHCARE CENTER**

FLORENCE, SOUTH CAROLINA

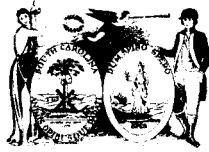
**CONTRACT PERIOD
BEGINNING JANUARY 1, 2003
AC# 3-FAI-J1**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 30, 2004

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to determine the reimbursement rate to be used by the Department in determining the reimbursement settlement with GranCare South Carolina, Inc. d/b/a Faith Healthcare Center, for the contract period beginning January 1, 2003, and for the twelve month cost report period ended September 30, 2001, as set forth in the accompanying schedules. The management of GranCare South Carolina, Inc. d/b/a Faith Healthcare Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

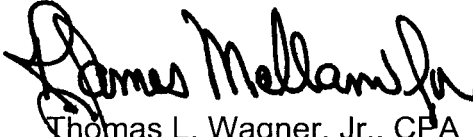
The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by GranCare South Carolina, Inc. d/b/a Faith Healthcare Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and GranCare South Carolina, Inc. d/b/a Faith Healthcare Center dated as of October 1, 2001 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
April 30, 2004

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA
State Auditor

FAITH HEALTHCARE CENTER
Computation of Rate Change
For the Contract Period
Beginning January 1, 2003
AC# 3-FAI-J1

01/01/03-
09/30/03

Interim Reimbursement Rate (1)	\$89.65
Adjusted Reimbursement Rate	<u>88.08</u>
Decrease in Reimbursement Rate	\$ <u><u>1.57</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated May 8, 2003

FAITH HEALTHCARE CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period January 1, 2003 Through September 30, 2003
AC# 3-FAI-J1

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$43.98	\$62.89	
Dietary		9.08	11.21	
Laundry/Housekeeping/Maintenance		<u>8.53</u>	<u>9.67</u>	
Subtotal	<u>\$5.86</u>	61.59	83.77	\$61.59
Administration & Medical Records	<u>\$3.00</u>	<u>9.77</u>	<u>12.77</u>	<u>9.77</u>
Subtotal		71.36	<u>\$96.54</u>	71.36
<u>Costs Not Subject to Standards:</u>				
Utilities		2.40		2.40
Special Services		.13		.13
Medical Supplies & Oxygen		2.31		2.31
Taxes and Insurance		1.91		1.91
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$78.11</u>		78.11
Inflation Factor (3.70%)				2.89
Cost of Capital				5.99
Cost of Capital Limitation				(.66)
Profit Incentive (Max. 3.5% of Allowable Cost)				2.73
Cost Incentive				5.86
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(6.84)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$88.08</u>

FAITH HEALTHCARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2001
AC# 3-FAI-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,640,279	\$13,514 (6)	\$13,251 (2) 605 (2) 7,550 (3) 7,504 (4) 2,883 (7) 5,895 (7)	\$1,616,105
Dietary	336,336	60,679 (6)	1,817 (2) 61,734 (7)	333,464
Laundry	83,475	15,060 (6)	15,392 (7)	83,143
Housekeeping	131,827	21,292 (6)	6,010 (7)	147,109
Maintenance	85,744	886 (3) 13,895 (6)	462 (2) 16,774 (7)	83,289
Administration & Medical Records	389,412	31,390 (6) 8,699 (6)	1,755 (2) 171 (2) 24,391 (3) 1,730 (4) 23,345 (5) 18,837 (7) 169 (7)	359,103
Utilities	91,617	14,849 (6)	6 (3) 18,137 (7)	88,323
Special Services	4,775	2,600 (3)	622 (2) 1,848 (4)	4,905
Medical Supplies & Oxygen	89,793	11,426 (6)	9,938 (4) 6,357 (7)	84,924
Taxes and Insurance	72,877	380 (3) 11,320 (6)	14,444 (7)	70,133

FAITH HEALTHCARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2001
AC# 3-FAI-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Legal Fees	-	-	-	-
Cost of Capital	195,840	1,636 (6) 44,680 (8)	2,349 (1) 10,657 (3) 9,091 (7)	220,059
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subtotal	3,121,975	252,306	283,724	3,090,557
Ancillary	(14,426)	-	-	(14,426)
Nonallowable	467,502	2,349 (1) 18,683 (2) 38,738 (3) 21,020 (4) 23,345 (5) 175,723 (7)	203,760 (6) 44,680 (8)	498,920
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$3,575,051</u>	<u>\$532,164</u>	<u>\$532,164</u>	<u>\$3,575,051</u>
Total Patient Days	<u>36,743</u>	<u>-</u>	<u>-</u>	<u>36,743</u>
Total Beds	<u>104</u>			

FAITH HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-FAI-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 31,676	
	Nonallowable	2,349	
	Fixed Assets		\$ 30,850
	Other Equity		826
	Cost of Capital		2,349
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	18,683	
	Nursing		13,251
	Restorative		605
	Dietary		1,817
	Maintenance		462
	Administration		1,755
	Medical Records		171
	Special Services		622
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Maintenance	886	
	Taxes and Insurance	380	
	Special Services	2,600	
	Nonallowable	38,738	
	Nursing		7,550
	Administration		24,391
	Utilities		6
	Cost of Capital		10,657
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

FAITH HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-FAI-J1

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
4	Nonallowable	21,020	
	Nursing		7,504
	Administration		1,730
	Medical Supplies		9,938
	Special Services		1,848
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
5	Nonallowable	23,345	
	Administration		23,345
	To remove cost applicable to a non-reimbursable cost center HIM-15-1, Sections 2102.3 and 2304 State Plan, Attachment 4.19D		
6	Restorative	13,514	
	Dietary	60,679	
	Laundry	15,060	
	Housekeeping	21,292	
	Maintenance	13,895	
	Administration	31,390	
	Medical Records	8,699	
	Utilities	14,849	
	Taxes and Insurance	11,320	
	Medical Supplies	11,426	
	Cost of Capital	1,636	
	Nonallowable		203,760
	To reverse DH&HS adjustment to remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

FAITH HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-FAI-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Nonallowable	175,723	
	Nursing		2,883
	Restorative		5,895
	Dietary		61,734
	Laundry		15,392
	Housekeeping		6,010
	Maintenance		16,774
	Administration		18,837
	Medical Records		169
	Utilities		18,137
	Taxes and Insurance		14,444
	Medical Supplies		6,357
	Cost of Capital		9,091
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
8	Cost of Capital	44,680	
	Nonallowable		44,680
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$563,840</u>	<u>\$563,840</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

FAITH HEALTHCARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2001
AC# 3-FAI-J1

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.4607</u>
Deemed Asset Value (Per Bed)	38,431
Number of Beds	<u>104</u>
Deemed Asset Value	3,996,824
Improvements Since 1981	416,059
Accumulated Depreciation at 9/30/01	<u>(873,965)</u>
Deemed Depreciated Value	3,538,918
Market Rate of Return	<u>.0577</u>
Total Annual Return	204,196
Return Applicable to Non-Reimbursable Cost Centers	(33,910)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	170,286
Depreciation Expense	66,191
Amortization Expense	462
Capital Related Income Offsets	(7,789)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(9,091)</u>
Allowable Cost of Capital Expense	220,059
Total Patient Days (Actual)	<u>36,743</u>
Cost of Capital Per Diem	\$ <u><u>5.99</u></u>

FAITH HEALTHCARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2001
AC# 3-FAI-J1

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$1.34
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$5.33</u>
Reimbursable Cost of Capital Per Diem	\$5.33
Cost of Capital Per Diem	<u>5.99</u>
Cost of Capital Per Diem Limitation	<u>\$(.66)</u>

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